

YOUTH ENCOURAGEMENT SERVICES

FINANCIAL STATEMENTS

December 31, 2009 and 2008

YOUTH ENCOURAGEMENT SERVICES

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Youth Encouragement Services
Nashville, Tennessee

We have audited the accompanying statements of financial position of Youth Encouragement Services (a nonprofit organization) as of December 31, 2009 and 2008, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2 to the financial statements, certain land and buildings are stated at estimated appraised value as of December 31, 1994 in the accompanying statements of financial position. Also, depreciation expense has not been recorded for all years in which the buildings have been in service. Generally accepted accounting principles require that such assets be stated at acquisition cost, net of depreciation on buildings, and that depreciation be recorded each year based on the economic life of the buildings. The effects on the financial statements of the preceding practices are not reasonably determinable.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Youth Encouragement Services as of December 31, 2009 and 2008, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

May 18, 2010

YOUTH ENCOURAGEMENT SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 252,995	\$ 259,622
Investments	171,501	121,659
Grant receivable	-	15,175
Prepaid expenses and other	2,164	830
Total current assets	<u>426,660</u>	<u>397,286</u>
Property and equipment, net:		
Land	106,236	106,236
Land improvements	4,095	4,095
Buildings	608,914	590,986
Furniture, fixtures and equipment	96,162	96,162
Vehicles	224,004	224,004
	1,039,411	1,021,483
Less accumulated depreciation	<u>(471,080)</u>	<u>(410,794)</u>
Property and equipment, net	<u>568,331</u>	<u>610,689</u>
Total assets	<u><u>\$ 994,991</u></u>	<u><u>\$ 1,007,975</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 23,927	\$ 35,911
Note payable, current portion	<u>8,666</u>	<u>8,006</u>
Total current liabilities	32,593	43,917
Note payable, net of current portion	<u>-</u>	<u>8,664</u>
Total liabilities	<u>32,593</u>	<u>52,581</u>
Net assets:		
Unrestricted	812,083	787,787
Temporarily restricted	145,315	162,607
Permanently restricted	<u>5,000</u>	<u>5,000</u>
Total net assets	<u>962,398</u>	<u>955,394</u>
Total liabilities and net assets	<u><u>\$ 994,991</u></u>	<u><u>\$ 1,007,975</u></u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Public support:				
Individual support	\$ 209,925	\$ 26,133	\$ -	\$ 236,058
Fundraising revenue	171,340	-	-	171,340
In-kind donations	140,975	-	-	140,975
Corporate support	62,723	40,000	-	102,723
Congregational support	65,328	-	-	65,328
Government grant	22,325	-	-	22,325
Total public support	<u>672,616</u>	<u>66,133</u>	<u>-</u>	<u>738,749</u>
Revenues:				
Investment income	49,931	-	-	49,931
Miscellaneous income	49,066	-	-	49,066
Interest income	46	-	-	46
Total revenues	<u>99,043</u>	<u>-</u>	<u>-</u>	<u>99,043</u>
Net assets released from restrictions	<u>83,425</u>	<u>(83,425)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>855,084</u>	<u>(17,292)</u>	<u>-</u>	<u>837,792</u>
Expenses:				
Program services	551,536	-	-	551,536
Management and general	175,370	-	-	175,370
Fundraising	103,882	-	-	103,882
Total expenses	<u>830,788</u>	<u>-</u>	<u>-</u>	<u>830,788</u>
Change in net assets	24,296	(17,292)	-	7,004
Net assets at beginning of year	<u>787,787</u>	<u>162,607</u>	<u>5,000</u>	<u>955,394</u>
Net assets at end of year	<u>\$ 812,083</u>	<u>\$ 145,315</u>	<u>\$ 5,000</u>	<u>\$ 962,398</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Public support:				
Corporate support	\$ 71,791	\$ 233,000	\$ -	\$ 304,791
Individual support	197,764	41,063	-	238,827
Fundraising revenue	214,353	-	-	214,353
Congregational support	87,199	-	-	87,199
In-kind donations	71,942	-	-	71,942
Government grant	15,175	-	-	15,175
Total public support	<u>658,224</u>	<u>274,063</u>	<u>-</u>	<u>932,287</u>
Revenues:				
Miscellaneous income	9,482	-	-	9,482
Interest income	5,096	-	-	5,096
Investment income	(94,011)	-	-	(94,011)
Total revenues	<u>(79,433)</u>	<u>-</u>	<u>-</u>	<u>(79,433)</u>
Net assets released from restrictions	<u>631,064</u>	<u>(631,064)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>1,209,855</u>	<u>(357,001)</u>	<u>-</u>	<u>852,854</u>
Expenses:				
Program services	695,041	-	-	695,041
Management and general	221,809	-	-	221,809
Fundraising	153,595	-	-	153,595
Total expenses	<u>1,070,445</u>	<u>-</u>	<u>-</u>	<u>1,070,445</u>
Change in net assets	139,410	(357,001)	-	(217,591)
Net assets at beginning of year	<u>648,377</u>	<u>519,608</u>	<u>5,000</u>	<u>1,172,985</u>
Net assets at end of year	<u>\$ 787,787</u>	<u>\$ 162,607</u>	<u>\$ 5,000</u>	<u>\$ 955,394</u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,004	\$ (217,591)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	60,285	56,773
Net (gain) loss on investments	(49,931)	94,011
Donated investments	(7,606)	-
Changes in operating assets and liabilities:		
Grant receivable	15,175	(15,175)
Prepaid expenses and other	(1,334)	5,775
Accounts payable and accrued expenses	(11,984)	4,907
Net cash provided by (used in) operating activities	<u>11,609</u>	<u>(71,300)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(17,927)	(100,118)
Purchase of investments	(30,969)	(154,588)
Proceeds from sale of investments	<u>38,664</u>	<u>118,800</u>
Net cash used in investing activities	<u>(10,232)</u>	<u>(135,906)</u>
Cash flows from financing activities:		
Payments of note payable	<u>(8,004)</u>	<u>(12,050)</u>
Net cash used in financing activities	<u>(8,004)</u>	<u>(12,050)</u>
Decrease in cash	(6,627)	(219,256)
Cash at beginning of year	<u>259,622</u>	<u>478,878</u>
Cash at end of year	<u><u>\$ 252,995</u></u>	<u><u>\$ 259,622</u></u>
Supplemental disclosure of cash flow information:		
Interest paid	<u><u>\$ 559</u></u>	<u><u>\$ 870</u></u>

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
Salaries and wages	\$ 111,597	\$ 3,178	\$ 114,775	\$ 69,049	\$ 14,760	\$ 83,809	\$ 198,584
Housing and auto allowance	73,917	-	73,917	34,125	-	34,125	108,042
Professional services	48,064	-	48,064	21,892	8,100	29,992	78,056
Christmas store (including \$57,325 in-kind)	57,325	-	57,325	3,044	1,200	4,244	61,569
Depreciation	60,285	-	60,285	-	-	-	60,285
Insurance	37,401	-	37,401	17,082	-	17,082	54,483
Travel, meals and entertainment (including \$35,468 in-kind)	50,755	-	50,755	39	-	39	50,794
Utilities	32,420	-	32,420	9,141	-	9,141	41,561
In-kind donations for auction	-	-	-	-	38,920	38,920	38,920
Fundraising activities	-	-	-	-	27,462	27,462	27,462
Bus and van	15,586	83	15,669	482	-	482	16,151
Payroll taxes	8,779	-	8,779	5,583	1,193	6,776	15,555
Miscellaneous	5,914	-	5,914	5,073	875	5,948	11,862
Scholarships and awards	11,103	-	11,103	-	-	-	11,103
Supplies	5,385	-	5,385	5,695	-	5,695	11,080
Program materials (including \$9,262 in-kind)	9,596	-	9,596	-	-	-	9,596
Postage	44	664	708	1,674	7,212	8,886	9,594
Repairs and maintenance	4,959	-	4,959	1,702	-	1,702	6,661
Honor roll trip	6,549	-	6,549	-	-	-	6,549
Printing and publications	-	2,083	2,083	-	4,160	4,160	6,243
Camp	-	4,294	4,294	-	-	-	4,294
Blessing fund	1,500	-	1,500	-	-	-	1,500
Interest	-	-	-	559	-	559	559
Dues and subscriptions	-	-	-	230	-	230	230
Basketball program	-	-	-	-	-	-	-
Total	\$ 541,234	\$ 10,302	\$ 551,536	\$ 175,370	\$ 103,882	\$ 279,252	\$ 830,788

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2008

	Inner City Centers	Camp	Total Program Services	Management and General	Fundraising	Total Supporting Services	Grand Total
	\$ 204,401	\$ 28,555	\$ 232,956	\$ 55,203	\$ 19,211	\$ 74,414	\$ 307,370
Salaries and wages	69,175	-	69,175	13,531	13,531	27,062	96,237
Housing and auto allowance	53,810	4,172	57,982	8,238	-	8,238	66,220
Utilities	-	-	-	65,933	-	65,933	65,933
Professional services	50,840	-	50,840	8,802	3,996	12,798	63,638
Insurance	56,773	-	56,773	-	-	-	56,773
Depreciation	-	-	-	-	-	-	-
Christmas store	-	-	-	-	-	-	-
(including \$27,470 in-kind)	52,059	-	52,059	-	-	-	52,059
Travel, meals and entertainment	-	-	-	32,497	13,927	46,424	46,424
Supplies	27,984	-	27,984	14,757	3,551	18,308	46,292
In-kind donations for auction	-	-	-	-	44,472	44,472	44,472
Fundraising activities	-	-	-	-	42,384	42,384	42,384
Bus and van	30,074	-	30,074	-	-	-	30,074
Payroll taxes	18,166	2,361	20,527	4,565	1,587	6,152	26,679
Repairs and maintenance	16,863	5,522	22,385	3,372	-	3,372	25,757
Program materials	23,957	-	23,957	-	-	-	23,957
Printing and publications	4,338	-	4,338	4,337	4,351	8,688	13,026
Miscellaneous	1,452	-	1,452	8,751	1,208	9,959	11,411
Scholarships and awards	10,885	-	10,885	-	-	-	10,885
Honor roll trip	9,624	-	9,624	-	-	-	9,624
Postage	4,288	-	4,288	953	4,287	5,240	9,528
Camp	-	8,647	8,647	-	-	-	8,647
Blessing fund	6,101	-	6,101	-	-	-	6,101
Basketball program	3,893	-	3,893	-	-	-	3,893
Advertising and promotion	527	-	527	-	1,090	1,090	1,617
Interest	-	-	-	-	-	870	870
Dues and subscriptions	574	-	574	870	-	-	574
Total	\$ 645,784	\$ 49,257	\$ 695,041	\$ 221,809	\$ 153,595	\$ 375,404	\$ 1,070,445

See accompanying notes to the financial statements.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 1 – NATURE OF OPERATIONS

Youth Encouragement Services (the “Organization”) was incorporated as a nonprofit entity for the purpose of providing programs for the benefit of inner city children. The Organization is funded primarily through contributions from corporations, individuals and churches.

Program Services:

Inner City Centers

Three centers are available on a daily basis to inner city children. The three locations are designed to provide a safe place for informal play, relaxation, and performance of school work. Tutoring programs are available every Thursday evening to help students with reading, math, English, cooking and computer skills. Parenting skills and adult literacy programs are also provided. A basketball league is provided for young people ages nine to eighteen.

Camp

A summer camp is provided for inner city youth at the Organization’s Dividing Ridge Camp location in Robertson County, Tennessee.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of accounting principles generally accepted in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization's statements of financial position, activities, cash flows, or functional expenses.

Basis of Presentation

In accordance with the FASB ASC, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned for unrestricted purposes.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support and shown as increases in the respective net asset class.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceeds amounts that are federally insured. In management's opinion, risk related to such possible deposits is reduced based on the credit quality of its depository financial institutions.

Investments

Investments in money market funds and marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the accompanying statements of financial position. See further discussion of fair value measurements in Note 3.

Investment income and unrealized gains and losses are reported as changes in unrestricted net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Land and buildings amounting to \$91,211 and \$180,412, respectively, are recorded at estimated appraised value as of December 31, 1994. Property and equipment acquired subsequent to December 31, 1994 are recorded at acquisition cost. Depreciation of property and equipment has been provided since June 30, 1990, over the estimated useful lives of the respective assets primarily on a straight-line basis.

Donated Materials, Services and Assets

The following donations are reflected as contributions in the accompanying statements at their estimated values at date of receipt for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Christmas store	\$ 57,325	\$ 44,472
Auction items	38,920	27,470
Food	35,468	-
Program items	<u>9,262</u>	<u>-</u>
	<u>\$ 140,975</u>	<u>\$ 71,942</u>

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and special projects. The Organization estimates receipt of approximately 9,000 volunteer hours for the years ended December 31, 2009 and 2008, respectively. However, these services do not meet the requirements above and have not been recorded in the accompanying financial statements.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

On January 1, 2009 the Organization adopted FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This interpretation prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2006 through 2009. Adoption of this pronouncement had no impact on the Organization's financial position or activities.

Revenue Recognition

Cash contributions are recognized as revenue when received.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Grant funds are earned and reported as revenues of the applicable grant when the Organization has incurred expenses in compliance with specific restrictions of the grant agreement. Expenses incurred for grant funds which have not been received are reported as grants receivable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of public support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred. There was no advertising expense for the year ended December 31, 2009. Advertising expense totaled \$1,617 for the year ended December 31, 2008.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based upon management's estimate among the programs and supporting services benefited.

Restricted Endowment Funds

The Uniform Prudent Management Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required.

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization has adopted the fair value measurement guidelines of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 Inputs to the valuation methodology include the following:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 3 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. A description of the valuation methodologies used for assets measured at fair value is as follows:

Mutual Funds: Valued at the net asset value ("NAV") of shares held by the Organization at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

	<u>2009</u>		<u>2008</u>	
	Quoted Prices in Active Markets for Identical Items (Level 1)		Quoted Prices In Active Markets for Identical Items (Level 1)	
	<u>Fair Market Value</u>	<u>Fair Market Value</u>	<u>Fair Market Value</u>	<u>Fair Market Value</u>
Mutual funds	<u>\$ 171,501</u>	<u>\$ 171,501</u>	<u>\$ 121,659</u>	<u>\$ 121,659</u>

The following schedule summarizes the investment income (loss) in the statements of activities for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 3,229	\$ 517
Net income (loss) on investments	<u>46,702</u>	<u>(94,528)</u>
	<u>\$ 49,931</u>	<u>\$ (94,011)</u>

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 4 – NOTE PAYABLE AND LINE OF CREDIT

At December 31, 2009 and 2008, the Organization had an outstanding note payable to a bank totaling \$8,666 and \$16,670, respectively. This note is due in monthly installments of \$713 and bears a fixed interest rate of 4.35% per annum. The note is callable in December 2010 and is secured by deposits and investments held by the lending institution.

During 2009, the Organization entered into a \$100,000 line of credit agreement with a bank. The line of credit bears interest at prime plus 1%, is secured by cash and other accounts, and matures August 2010. There were no amounts outstanding under the line of credit at December 31, 2009.

NOTE 5 – NET ASSETS

Temporarily restricted net assets as of December 31 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Renovation of centers	\$ 5,700	\$ 5,700
Learning lab operations	-	15,000
Afterschool program	30,000	-
Capital campaign	73,290	94,779
Scholarship	<u>36,325</u>	<u>47,128</u>
	<u>\$ 145,315</u>	<u>\$ 162,607</u>

Permanently restricted net assets are held in perpetuity with the income from assets expendable to support certain programs. A summary of the permanently restricted net assets as of December 31 is as follows:

	<u>2009</u>	<u>2008</u>
Ardell Whitehead Endowment Fund	<u>\$ 5,000</u>	<u>\$ 5,000</u>

During 2008, the Organization adopted FASB ASC guidance related to permanently restricted endowments. Under this guidance, permanently restricted net assets would follow the Uniform Prudent Management Institutional Funds Act, whereby, permanently restricted net assets are not released by investment losses or organization expenditure from the fund. It also requires additional disclosures, if significant, regarding management's investments policies. The Organization presently does not maintain significant permanently restricted net assets, and no change occurred in the Organization's permanently restricted net assets during 2009 or 2008.

YOUTH ENCOURAGEMENT SERVICES
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 6 – GOVERNMENT GRANT

During 2008, the Organization was awarded a grant totaling \$37,500 from the Metropolitan Government of Nashville and Davidson County with a grant term of July 1, 2008 through June 30, 2009. In conjunction with this grant \$15,175 is included as grant receivable and grant revenue in the accompanying 2008 statement of financial position and statement of activities, respectively. All amounts due under this grant were received during 2009.

NOTE 7 – RISKS, UNCERTAINTIES AND OTHER CONSIDERATIONS

The Organization utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

NOTE 8 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through May 18, 2010, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.